

## Message Text

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ACTION EB-06

INFO OCT-01 EUR-12 ISO-00 FEA-01 AEC-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-01 INR-05

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01

OES-02 SP-02 SS-15 STR-01 TRSE-00 FRB-01 /078 W

----- 027257

R 072039Z NOV 74

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 4935

C O N F I D E N T I A L OTTAWA 3650

E.O. 11652: GDS

TAGS: ENRG, CA

SUBJECT: ENERGY: OIL EXPORT CHARGE

FOR KATZ AND VINE FROM AMBASSADOR

1. DURING FIRST DAY OF DEBATE (OCTOBER 31) IN COMMONS ON PETROLEUM ADMINISTRATION ACT (BILL C-32), ENERGY MINISTER MACDONALD MADE THE FOLLOWING POINTS WITH REGARD TO THE OIL EXPORT CHARGE:

A. PROCEEDS OF THE CHARGE REPRESENT AN IMPORTATN CONTRIBUTION TO THE CONSOLIDATED REVENUE FUND, JUST AS THE IMPORT COMPENSATION PROGRAM IS A SIGNIFICANT CHARGE ON THE FUND.

B. ESTIMATES OF THE RESPECTIVE FINANCIAL MAGNITUDES ENTAIL GREAT UNCERTAINTY BECAUSE ON THE REVENUE SIDE THE EXPORTCHARGE IS ON A MONTHLY "ONCE FOR ALL" BASIS, WHILE THEIMPORT COMPENSATION LIABILITY IS SUBJECT TO RETROACTIVE CHANGE AT THE INSTANCE OF FOREIGN PRODUCER GOVERNMENTS.

C. ANOTHER PROBLEM AREA IS ESTIMATION OF AGGREGATE  
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VOLUMES WHICH WILL BEAR THE EXPORT CHARGE AND WHICH

WILL BE LIABLE FOR IMPORT COMPENSATION. RATES OF EXPORT ARE DIFFICULT TO PREDICT BECAUSE THEY DEPEND ON U.S. MARKET CONDITIONS AS WELL AS ON NATIONAL ENERGY BOARD (NEB) DETERMINATIONS OF QUANTITIES SURPLUS TO CANADIAN NEEDS.

D. ASSUMING AN AVERAGE EXPORT CHARGE IN CURRENT FISCAL YEAR (APRIL 1, 1974 THROUGH MARCH 31, 1975) OF SLIGHTLY LESS THAN \$5.00 PER BARREL, AN AVERAGE IMPORT COMPENSATION OF \$4.50 PER BARREL, AND AVERAGE EXPORTS OF 860,000 B/D AND IMPORTS OF 790,000 B/D, TOTAL IMPORT COMPENSATION PAYMENTS WOULD AMOUNT TO ABOUT \$1.3 BILLION AND EXPORT REVENUES WOULD REACH \$1.5 BILLION, RESULTING IN A SURPLUS OF APPROXIMATELY \$200 MILLION IN THE CONSOLIDATED REVENUE FUND.

E. MACDONALD STATED THAT IT WOULD BE HIS GENERAL EXPECTATION THAT ON UNIT BASIS AVERAGE PER BARREL EXPORT CHARGE WOULD "SOMEWHAT EXCEED" THE AVERAGE PER BARREL IMPORT COMPENSATION LARGELY BECAUSE OF QUALITY: "THE OIL THAT WE EXPORT IS GENERALLY OF A LIGHTER GRADE AND OF LOWER SULPHUR CONTENT THAN THE OIL WE IMPORT".

F. MACDONALD STATED THAT IN MAKING THESE ESTIMATES IT HAS BEEN ASSUMED THAT IN THE BALANCE OF THE FISCAL YEAR NO SIGNIFICANT REDUCTION WOULD TAKE PLACE IN EXPORT VOLUMES.

2. COMMENT: DEPARTMENT WILL RECALL EXCHANGE OF NOTES WITH GOC LAST SUMMERAM U.S. NOTE OF JUNE 3 EXPRESSED CONCERN ABOUT INCREASE IN EXPORT CHARGE TO \$5.20 WITH RESULTING INFLATIONARY EFFECTS, AND APPARENT USE OF EXPORT CHARGE AS A REVENUE MEASURE. USG URGED GOC TO RECONSIDER ITS POLICY. GOC REPLY OF AUGUST 27 RESTATED GOC RATIONALE FOR TAX, REJECTED THE CONTENTION THAT THERE HAD BEEN ANY CHANGE IN THE BASIS OF THE EXPORT CHARGE OR THAT THE HIGHER LEVEL WOULD ENVOURAGE HIGHER PRICES, AND SPECIFICALLY DISAVOWED ANY LINK BETWEEN THE EXPORT CHARGE AND COMPENSATION  
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PAYMENTS TO IMPORTERS.

3. WHILE MACDONALD'S COMMENTS REPORTED PARA ONE ABOVE ARE NOT NECESSARILY INCONSISTENT WITH POSITION TAKEN BY GOC IN IT SAUGUST 27 NOTE, THEY DO OBVIOUSLY REFER TO EXPORT CHARGE IN ITS REVENUE CONTEXT AND RELATE RETURNS FROM CHARGE TO PAYMENTS TO IMPORTERS. COMING AT A TIME WHEN (A) U.S. CUSTOMERS ARE NOT TAKING UP

THEIR FULL ALLOCATIONS OF CANADIAN CRUDE, PRESUMABLY  
IN PART BECAUSE HIGH LEVEL OF EXPORT CHARGE IS PRICING  
CANADIAN CRUDE OUT OF MARKET, (B) PRESS IS REPORTING  
SIGNS THAT SAUDI ARABIA AND, PERHAPS, IRAN MAY BE  
CONSIDERING SOME REDUCTION IN PRICE, AND (C) USG  
IS EFFECTIVELY ARTICULATING IMPLICATIONS OF CONTINUED  
HIGH OIL PRICES FOR PRODUCERS AS WELL AS CONSUMERS  
(SOME OF TREASURY SECRETARY SIMON'S COMMENTS RE  
CONSEQUENCES OF LEAVING OIL IN THE GROUND CARRIED IN  
WIRELESS FILE OF NOVEMBER 4 SHOULD HIT HOME IN CANADA),  
I BELIEVE MACDONALD'S COMMENTS PROVIDE OPPORTUNITY  
FOR US TO REITERATE OUR CONCERNS TO GOC POLICY-MAKERS.  
IF DEPARTMENT CONCURS, I PROPOSE TO RAISE THESE  
CONSIDERATIONS WITH GOC, NOTING THAT SOME MODIFICATION  
OF GOC POLICY WOULD SEEM PARTICULARLY APPROPRIATE  
PRIOR TO PM TRUDEAU'S VISIT TO WASHINGTON ON DECEMBER 4.

4. REQUEST GUIDANCE ASAP.  
PORTER

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM, EXPORTS, CUSTOMS DUTIES  
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**Copy:** SINGLE  
**Draft Date:** 07 NOV 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** garlanwa  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
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**Executive Order:** GS  
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**Previous Handling Restrictions:** n/a  
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**TAGS:** ENRG, CA  
**To:** STATE  
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